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# STARS MANUAL

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## PRIOR YEAR ADJUSTMENTS

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### INTRODUCTION

This chapter will explain how to handle prior year adjustment transactions. This includes Idaho Code 67-3904 prior year adjustments. It will also explain the requirements for restoring prior year encumbrances canceled in error, prior year spending authority to cover refunds, and reimbursements being re-issued in the current year.

### PRIOR YEAR ADJUSTMENTS

Adjustments for errors in accounting records are common. There may be times when you may not find the error in time to make an adjustment until after the close of the State fiscal year.

[Idaho Code 67-3604](#) allows your agency to make your own prior year adjustments. These may increase or decrease appropriation and/or cash. However, the adjustment must be done within six months after the close of the year and must not exceed \$500,000.

Adjustments can be made to correct a wrong subobject, budget unit, fund, or grant. Reasons you would need to make an adjustment include:

- You process a payment in one fiscal year, then find that the payment was to the wrong fund and budget unit.
- You process a payment to a vendor at the end of one fiscal year, and then receive a refund in the following fiscal year.
- You process a receipt to the wrong fund in the prior year.
- You process an expenditure or revenue to the wrong grant or project in the prior year.
- You over-reimburse a rotary fund in one year and need to adjust it in the next fiscal year.

## PRIOR YEAR ADJUSTMENTS – WHAT IS IT

The [Fiscal Policies Manual - Prior Year Adjustments](#) policy regarding Idaho Code 67-3604 may govern your adjustment depending on the type of balances your adjustment affects. Even though this prior year adjustment statute is in Idaho Code Chapter 67-36, “Standard Appropriation Act of 1945,” it covers all “key statewide balances”, which is more than just appropriated balances.

### DEFINITIONS

Prior year adjustment may affect “key statewide balances” or may just affect “agency internal balances.” You must know the difference before you can determine if your agency can just make the adjustment or if you must get prior approval. There are different ways to handle your adjustment, depending on the type of adjustment you are making.

Key Statewide Balances - two types of the balances are:

1. Appropriated balances – These are balances appropriated through appropriation bills or by Idaho Code. They are normally appropriated by fund, by program (budget unit) and by object (personnel, operating, capital outlay, and trustee and benefits). NOTE: These would be balances where you would load appropriation amounts per legislative bills, etc.
2. Cash balances in statutorily defined funds that are either:
  - **Continuously appropriated funds** – limited by the cash balance of the fund for your agency.  
NOTE: These would be balances where you would load a zero appropriation amount.
  - **Non-appropriated funds** – where you may be just affecting the amount of cash in a fund this is not directly appropriated.  
NOTE: These funds are usually transferred to other funds for use.

Agency Internal Balances - The “agency internal balances” are not tracked for statewide purposes by appropriation (appropriation bill or Idaho Code) or other central financial or policy personnel (DFM, LSO, etc.). These balances are not subject to the provisions of the prior year adjustment requirements in Idaho Code 67-3604. Agency internal balance adjustments must remain within the same appropriated structure (budget unit, fund, object). These are adjustments within your agency-specific coding elements such as:

- Grants.
- Projects.
- Subobject details.
- Management-only fund details (fund details not on the appropriation bills).
- Other agency-specific coding elements to track revenue, expenditures.
- Other balances for agency-bookkeeping purposes.

Even though, for various cost accounting purposes such as federal grant cost recovery, you may make significant adjustments to your agency internal balances. These are not subject to the six

month or \$500,000 limitations as long as the adjustment remains in the same appropriated structure (fund, budget unit, and object).

## **PRIOR YEAR ADJUSTMENTS – UNDERSTANDING THE BASICS**

The following are categories of prior year adjustments:

### **Prior Year Adjustments Affecting Key Statewide Balances**

- [Key Statewide Balance Adjustments – Under \\$500,000 and by December 31](#)
- [Key Statewide Balance Adjustments – Over \\$500,000 or after December 31](#)

### **Prior Year Adjustments Affecting Agency Internal Balances**

- [Agency Internal Balance Not Crossing Appropriation Structure](#)

### **Other Prior Year Expenditure Adjustments**

- [Finalized or Cancelled a Prior Year Encumbrance in Error](#)
- [Refund or Reimbursement for an Expenditure](#)
- [Over-reimbursement of a Rotary Fund](#)
- [Processed a Reimbursement to Outside Funds in Error](#)

NOTE: There is a possibility that these prior year adjustments may create a negative expenditure on the appropriation file. STARS processing will allow this, but your agency must keep sufficient documentation for audits.

## **PRIOR YEAR ADJUSTMENTS AFFECTING KEY STATEWIDE BALANCES**

### **KEY STATEWIDE BALANCE ADJUSTMENTS UNDER \$500,000 AND BY DECEMBER 31**

Within the first six months of the following year, you can make your own prior year adjustments to Key Statewide Balances, as long as you process the adjustment by December 31 and the amount does not exceed \$500,000. If your adjustment amount is \$100,000 or more, you will need to report the adjustment to the State Controllers' Office, Reporting and Review section at [CAFR@sco.idaho.gov](mailto:CAFR@sco.idaho.gov).

There are three options for adjusting these key statewide prior year balances:

1. Current Year Adjustment Revenue or Expenditure Transaction Codes.

NOTE: This option posts revenue or expenditure adjustment to the current fiscal year information.

- Use current year revenue or expenditure adjustment transaction codes. (see the [STARS Cash Receipts chapter](#) or the [STARS Expenditures and Disbursements chapter](#))  
Current year adjustment expenditure transactions may increase or decrease your agency's current year appropriations due to the adjustment crossing your appropriated fund structure (funds, budget units, or expenditure objects). This could result in a) not having enough appropriation to cover current fiscal year expenditures; or b) a possibility of creating negative expenditures on the appropriation file, showing more appropriation that you originally received. STARS processing will allow this, but your agency must keep sufficient documentation for justification to auditors.
- Enter PY ADJ into the invoice number field to identify the transaction as a prior year adjustment.
- If your adjustment amount is \$100,000 or more, you will need to report the adjustment to the State Controllers' Office, Reporting and Review section at [CAFR@sco.idaho.gov](mailto:CAFR@sco.idaho.gov).

2. Current Year Expenditure Adjustment with Prior Year Reversion Adjustment transaction Codes.

If you want to use current year "expenditure" adjustment transaction codes, but do not want to affect your current year appropriations, you may request a reversion adjustment. This will allow you to cover the expenditure charge adjustment by reclaiming last year's appropriation amount that was reverted. You can only make the expenditure charge adjustment (ex: TC 27B) to the same appropriated structure where it was reverted.

**NOTE:** The expenditure adjustment must not exceed the allowable reversion amount. You must absorb the difference in current year, or go to the legislature for a supplemental appropriation adjustment.

You must process any reversion adjustments or supplemental appropriation requests through your agency's budget analyst in the Division of Financial Management. The legislature then must approve the supplemental appropriation adjustment. See the [Budgeting chapter](#) for more information on reversions and supplemental appropriations.

- a. You can use current year revenue or expenditure adjustment transaction codes.
- b. You should enter PY ADJ into the invoice number field to identify the transaction as a prior year adjustment.
- c. In addition, to request a reversion adjustment (TC 021/021R), you should process the adjustments in the same batch as the expenditure adjustment.

- d. You must process offsetting reversion adjustment amounts (TC 021/021R) in the current fiscal year. Your adjustment and reversion transaction codes (TC) must have the same structure. (Example: TC 27A & TC 021 must have the same appropriation structure. Likewise, the TC 27B & TC 021R must have the same appropriation structure.) You must complete a reversion (REVERT) form to request approval for a reversion adjustment through the Division of Financial Management.

NOTE: If the amount was reappropriated instead of reverted in the prior year, you do not need to do the reversion adjustment. (The amount will already show in the PY Reappropriation bucket on the Appropriation file.) In this case, both the PY reappropriation and the expenditure adjustment are in the same budget fiscal year and transaction year.

- e. If your adjustment amount is \$100,000 or more, you will need to report the adjustment to the State Controllers' Office, Reporting and Review section at [CAFR@sco.idaho.gov](mailto:CAFR@sco.idaho.gov).
- f. The Division of Financial Management (DFM) will make the determination of the impact of an individual versus accumulative \$500,000 adjustment. This will depend on the impact to the key statewide balances.

### 3. SCO Prior Year Adjustment Transaction Codes.

If your agency wants the adjustment to show as a prior year adjustment to cash and equity, you may want to use this option. As long as this adjustment is made during the first six months, you can ask the State Controller's Office to make this adjustment. We recommend using this option when working on getting an old grant ready for purging.

- a. The adjustment must meet the same criteria as option 2. Expenditure charges cannot exceed the amount reverted in the prior year.
- b. Send your request through the DSA helpline at [dsahelpline@sco.idaho.gov](mailto:dsahelpline@sco.idaho.gov).
- c. Be sure to supply pertinent information for backup documentation.
- d. If your adjustment amount is \$100,000 or more, you will need to report the adjustment to the State Controllers' Office, Reporting and Review section at [CAFR@sco.idaho.gov](mailto:CAFR@sco.idaho.gov).

NOTE: Options 1 and 2 post to revenues (GL 4100) or expenditures (GL 4200). The SCO prior year adjustment transaction codes will only post to cash and equity. The SCO will use TCs 316/314 for revenue adjustments and TCs 306/314 for expenditure adjustments. If you need adjustments to the grant or project files, the SCO can use TCs in the 900 series in addition to the revenue and expenditure adjustment transaction codes.

## **KEY STATEWIDE BALANCE ADJUSTMENTS – OVER \$500,000 OR AFTER DECEMBER 31**

Your agency should not make revenue or expenditure adjustments to Key Statewide Balances without prior approval if the adjustment is after December 31<sup>st</sup> (regardless of the amount) or if the amount is \$500,000 or more (regardless of the time period).

Send notification to the DSA Helpline at [dsahelpline@sco.idaho.gov](mailto:dsahelpline@sco.idaho.gov). SCO will contact the necessary personnel (DFM, LSO, etc.) to determine the recommended adjustment process. SCO will then contact your agency with the decision.

Also, if you identify an adjustment after December 31 that is \$100,000 or more that affects key statewide balances, notify the SCO Bureau of Reporting and Review at [CAFR@sco.idaho.gov](mailto:CAFR@sco.idaho.gov). If the SCO Bureau of Reporting and Review bureau determines that they should record the adjustment for state controller financial reporting purposes (statewide CAFR), they will contact the JFAC co-chairs with the adjustment(s) proposal and seek their interim approval for the adjustment. If the co-chairs approve the adjustment, the SCO will adjust the CAFR information in the adjusted beginning balances for the next year reporting. Your agency will still need to request legislative approval before posting to the STARS financial files.

## **PRIOR YEAR ADJUSTMENTS AFFECTING AGENCY INTERNAL BALANCES**

### **AGENCY INTERNAL BALANCE – NOT CROSSING APPROPRIATION STRUCTURE**

Your agency can record revenue or expenditure adjustments that only offset Agency Internal Balances (does not affect budget units, funds, appropriations, etc.), regardless of the six-month period or the \$500,000 amount limitation. This includes fixing simple coding errors such as grants, projects, or other similar coding elements that stay within the same appropriated structure. You do not have to notify SCO of these adjustments.

There are two options in which you can adjust these agency internal prior year balances:

1. **Current Year Adjustment Revenue or Expenditure Transaction Codes**

You may want to use this option if you do not care that the revenues or expenditures adjustment posts to the current fiscal year information.

- a. You can use current year revenue or expenditure adjustment transaction codes.
- b. You should enter PY ADJ into the invoice number field to identify the transaction as a prior year adjustment.

2. **SCO Prior Year Adjustment Transaction Codes.**

You may want to use this option if you are adjusting old cash and equity, such as when working on getting an old grant ready for purging. Also, if your agency does not wish to affect current year revenues, expenditures, or appropriations, you may want to ask the State Controller's Office to make this prior year adjustment.

- a. Send your request to the DSA helpline at [dsahelpline@sco.idaho.gov](mailto:dsahelpline@sco.idaho.gov).
- b. Be sure to supply pertinent information for backup documentation.

**NOTE:** Options 1 and 2 post to revenues (GL 4100) or expenditures (GL 4200). The SCO prior year adjustment transaction codes will only post to cash and equity. The SCO will use TCs 316/314 for revenue adjustments and TCs 306/314 for expenditure adjustments. If you need adjustments to the grant or project files, the SCO can use TCs in the 900 series in addition to the revenue and expenditure adjustment transaction codes.

## **OTHER PRIOR YEAR EXPENDITURE ADJUSTMENTS**

### **FINALIZED OR CANCELLED A PRIOR YEAR ENCUMBRANCE IN ERROR**

If you finalized or cancelled a prior year encumbrance in error, you can request that SCO restore the balance that was liquidated in error. This must be done in the same year the error occurred.

- Send a request to the SCO DSA Helpline at [dsahelpline@sco.idaho.gov](mailto:dsahelpline@sco.idaho.gov) requesting SCO to re-open a prior year encumbrance. The SCO will restore the balance that was liquidated in error using TC 305.
- Include your agency number, the encumbrance document number, and the BFY of the encumbrance you closed in error.

### **A REFUND OR REIMBURSEMENT FOR AN EXPENDITURE MADE IN A PREVIOUS YEAR**

Refunds or reimbursements are not subject to Idaho Code 67-3604 limits. This includes items such as:

- Refund of a prior year payment
- Refund of an overpayment to a vendor
- Third-party reimbursement of a prior year payment, including payroll
- Return of an advance payment made in a prior year
- Refund for defective goods paid for in a prior year

You should deposit refunds or reimbursements as a “receipt of refund for overpayment of prior year expenditure”. STARS will treat the refund/reimbursement as revenue. This will not increase current year appropriation. To record a refund or reimbursement you should:

1. Deposit the refund amount using TC 106 (receipt of refund for overpayment of prior year expenditure) and subobject 3635 (refund/reimbursement prior year expenditure).
2. If you are planning on re-issuing the payment to replace the refund or reimbursement, you can make an adjustment to cover the re-issuance.

At the time of the re-issuance, you should adjust the prior year refund using TC 106R and TC 105. You can adjust this amount only up to the amount of the original refund/advance payment or the new payment, whichever is less. The TC 105 will restore your spending authority to cover the re-issuance.



NOTE: The TC 230 payment and the TC 105 adjustment will net to zero in the current year if the new payment is equal to or less than the refund. TC 230 increases expenditures and TC105 reduces expenditures. Therefore, you will not affect current year appropriation.

### **OVER-REIMBURSEMENT OF A ROTARY FUND IN ONE YEAR FOUND IN THE NEXT YEAR**

You can do a regular rotary fund reversal (TC 730R/735R) since rotary fund amounts are normally immaterial.

### **PROCESS A REIMBURSEMENT TO OUTSIDE FUNDS IN ERROR IN ONE YEAR AND FIND THE PROBLEM IN THE NEXT YEAR**

If you can make an adjustment if you process a reimbursement to outside funds in error in one fiscal year and do not find the problem until the next fiscal year. To do this you should:

1. Write a check out of the outside funds.
2. Deposit the amount using TC 106 (receipt of refund for overpayment of prior year expenditure) and subobject 3635 (refund/reimbursement prior year expenditure).

You may also be able to adjust your reappropriation amount. If the transaction had been done correctly, and that amount would have been reappropriated into the next fiscal year, you can do a reappropriation adjustment. To do a reappropriation adjustment you should:

3. Enter a transaction code 012 (prior year reappropriation) to re-establish the reappropriation amount, as if the payment had not been made in the prior year. This can be done as long as you complete the adjustment by December 31 and the amount is under the \$500,000 limitation. After the six months or greater than \$500,000 limit, the reappropriation increase will require legislative approval.

### **IDAHO CODE**

[Idaho Code 67-3604](#) governs the closing of accounts by the State Controller at fiscal year end. It also includes limitations regarding adjustments to prior year information.